

CITIZENS LEAGUE
545 Mobil Oil Building
Minneapolis, Minnesota 55402

Minutes of Meeting

Thursday, July 25, 1968

FISCAL DISPARITIES AGENDA SUBCOMMITTEE
6:30--Room 216--Minneapolis Public Library

PRESENT: Earl F. Coldborn, Jr., Chairman, Dr. Frank Boddy, Robert Ehlers, James C. Erickson, Loren Gross, Neil Kurlander, Gordon Moe, F. W. Preeshl, M. H. Thayer, Thomas Vasaly, Norman Werner, Rollin H. Crawford, guest speaker, Mrs. Irma Sletten, staff, & Paul A. Gilje, staff.

1. The meeting was called to order at 6:55 p.m. by acting chairman Thayer in the absence of chairman Colborn.
2. Presentation by Rollin Crawford--Mr. Thayer introduced Rollin H. Crawford, Mayor of West St. Paul and chairman of the Government Finance Committee of the League of Minnesota Municipalities Metropolitan Section. In his comments Mr. Crawford made the following points:
 - You can look at the problem of fiscal disparities in two ways. In a sense you can say that the fiscal disparities are not a problem, and in another sense you can say they are the only problem. In saying that fiscal disparities are not a problem we are merely pointing out that the real problems are other and that the disparities are only a hindrance to solving the real problem. He characterized these real problems as of two types: (a) The physical, capital development type of problem and (b) the social problems. The fiscal disparities are preventing us from solving the urgent educational and human rights problems. The disparities are producing ineffective use of land.

Fiscal disparities aren't a problem in and of themselves, but in order to solve the zoning questions such as those raised by the Metropolitan Development Guide you have to get a solution to the fiscal questions. If the Metropolitan Development Guide recommends a major commercial-industrial complex in Inver Grove Heights, the West St. Paul people will not sit tight and let Inver Grove Heights have that development without fighting for it themselves unless the tax base problem is solved.

In terms of the real walls of the ghetto, the real walls of the ghetto are not in St. Paul but most of these walls exist at the St. Paul and Minneapolis city limits where the suburbs have increased their zoning density requirements to get high-class development in and thereby protect their tax base.

- A second problem is how do we reestablish or conserve the viability of local units of government in the Twin Cities area, not just local municipalities but all levels below the state level. How is each municipality going to provide for the necessary services and still not tax itself to death? Many functions now handled by local municipalities could better be handled on a broader basis. Perhaps in the Twin Cities area we are looking to metropolitan government as a solution to some of the problems. Or perhaps by setting up appropriate fiscal powers we can solve these problems.
- Yet, for his personal view on what can be done to solve or alleviate the fiscal disparities problem, he said that his Government Finance Committee of the Metropolitan section of the League of Minnesota Municipalities has spent many hours working on this problem and it is not clear that they are any closer now than before. He said

*7/29 mailed 1-5
8/1 mailed 2 rest of
committee
To free list 9/27*

that one of the things which has been said repeatedly is that "we should get the state back into the property tax field. We went the wrong way in the 1967 Legislature in terms of disparities." He mentioned the various alternatives for various forms of area-wide taxation as suggested earlier by Tom Anding of the Upper Midwest Research and Development Council.

3. At this point Mr. Crawford opened the meeting to general discussions with himself. During this session the following points were made:
 - . He was asked whether the question of setting off the 7-County metropolitan area against the rest of the state and creating a fiscal disparities thereby has come up in his Government Finance Committee. Mr. Crawford said the question has been touched on, and some people think that you talk about creating another province when we look at it in this way. This is particularly true in so far as any additional source of revenue that would be raised only be the metropolitan area. It is less clear if this involves a redistribution of the local tax like the property tax in the 7-County area.
 - . Mr. Ehlers questioned whether the fiscal disparities problem is holding back progress in the metropolitan area. He noted that even such poor communities as Lexington and Circle Pines are embarking on a sewage disposal program. Mr. Crawford pointed out, though, that the tax burdens fall remarkably heavy on those least able to pay which is in itself a disparity. Mr. Ehlers contended that municipalities follow certain cycles. Fridley, for example, went through a poor stage and has since developed a strong tax base. Mr. Erickson commented that the question isn't whether or not you provide a municipal sewage system, but its the cost that a community has to pay for such a service as against another community. He also argued that the fiscal disparities problem prevents a reasonable approach to the open-space question because a county like Washington County must concentrate on attracting a tax base because it is forced to rely on the local property tax base only.
 - . At this point there was some discussion about the use of Metropolitan Special Purpose Districts for the carrying out of certain metropolitan functions. Mr. Ehlers contended that these Special Purpose Districts such as the Metropolitan Airport Commission had done a very good job. Mr. Crawford responded that the metropolitan section of the League of Minnesota Municipalities has been against the proliferation of Special Purpose Districts. It tends to set up a situation where you are unable to decide on financing between defferent functions and you can have no determination of priorities among a variety of needs.
 - . In terms of collection and distribution of property tax revenues on a broad base in the metropolitan area, Mr. Crawford was asked what assurances he as a municipal official would want. He said that basically it appears that, as far as his community is concerned, it would not suffer under almost any type of distribution formula. On the other hand, with some communities it is a question of life or death. He would envision that the best type of distribution formula would be diversified. It might send the money back at least partially on property value and partially on need. He personally has a lot of confidence in computers, and believes that you might be able to develop a good distribution formula in this manner. He alluded to the Computer Study which is being undertaken jointly by the Citizens League and the Upper Midwest Research and Development Council in developing a model of the metropolitan area tax system. He said it is fantastic the various alternatives you could try out with that Computer Study. He said that by and large municipal officials will indicate a marked reluctance to support any type of broader distribution of property taxes, but that he believes there is substantial support which remains unsaid.

- . At this point Mr. Gross said that it appears that fiscal disparities are not so bad so long as the other guy is on the short end of the stick. He concludes that what ever is done in this area will have to be done involuntarily. You get to the whole problem of local-nationalism and you'll need power to take certain things away from people.
- . Mr. Boddy asked Mr. Crawford what the attitude of a local government would be if the fiscal controls were taken away from the community and it received a grant of money which it could spend as it wished. Mr. Crawford said that currently it is very difficult to get people to run for office, but perhaps you could get far more qualified people to run for office if they knew that their responsibility was to divide up the pie rather than to have to face the question of raising the funds. He feared that depending upon what time of the year that budget-hearings were held that the funds available for the year might be improperly distributed. For example, in the spring you might get an over emphasis on storm sewer allocations. On the other hand he reflected that the money which comes to the local unit of government, at least in West St. Paul, on a shared basis from the state is the money that is spent most carefully and judiciously. He referred to the cigarette and liquor tax revenue.
- 4. Mr. Thayer urged committee members to read the background materials distributed at the meeting. There were two articles reproduced from the Wall Street Journal. One article deals with law suits which have been filed in Detroit and Chicago arguing for better distribution of state-aid to big city schools. The other article deals with the alleged ineffectiveness of increasing the spending in core city schools in terms of the quality of educational output. Also distributed to the committee was a summary of a report by the Advisory Commission on Inter-Governmental Relations titled "Fiscal Balance in the American Federal System."
- 5. For the balance of the meeting Mr. Boddy led the discussion. He is Associate Dean of the Graduate School at the University of Minnesota and Professor of Economics. He served on the Advisory Committee to the Mayor's Tax Study in 1966-67. In his comments he made the following points:
 - . As we look at the fiscal disparities problem it is appropriate that we put it into context. Looking at the United States as a whole we see there are 3 layers of government--the federal, state, and the local, with the local broken down generally into school district and municipality. Looking at the whole picture of revenue needs and tax-raising ability in the future the over-all view is very hopeful. The resources clearly are available on an over-all basis. Looking first at the national government we see that the tax-raising ability of the federal government is very good. The corporate and individual income tax receipts increase at a rate of 10 billion dollars a year simply with the growth in the economy. This means that 4 years from now the federal government will have 40 billion dollars a year more to spend than it has now. With the exception of the demands on the economy because of the Vietnam War, it is clear that the resources of the federal government far exceed the need. Looking at state governments, we see that generally the increase in revenue from state taxes will go up about the same rate as the need. This is from the sales tax and income tax generally. Looking at local government, on the other hand, we find that this is where the problems really exist. The demands and needs for services are increasing much faster than the revenues from existing taxes. Summarizing again we see that looking at the economy as a whole we see there is no question we have the fiscal ability to provide our necessary government services. The difficulty lies in the distribution of the funds. The federal government has the real tax-raising ability without the pressure for increased services. The real problem lies at the local unit of government where

the pressure for increased services exists, but there simply is not the appropriate tax framework.

The major reasons for the demand for increased services at the local level are that incomes are increasing which means that people demand more from local government in terms of parks and recreation, education, highways, and so forth. Second, from a social viewpoint we have come to face some long neglected problems in the ghettos and slums and our poor school districts. Third, is the matter of increasing urbanization which produces a demand for more local government services. All of these are inevitable. We cannot stop this demand. Consequently, we see the demand for public services at the local level which has the worst possible tax base to support them. Clearly we can redistribute the responsibility for certain services or we can redistribute the available money.

Relating this discussion to our question of fiscal disparities, Mr. Boddy believes that on an over-all basis all of our local municipalities and school districts are in trouble in terms of funds. They have no recourse but to increase the rate of their local taxes. But the problem is that some of these local units are in far greater trouble than others. This is because of the distribution of the local taxes. Perhaps we won't have too much impact on the redistribution of state or federal funds, but hopefully we can play a role at the local level in smoothing out some of the disparities between local units.

Mr. Boddy said that he has spent some time in the past week trying to evaluate the massive amount of data which has been brought before this committee to date. He has placed the various material about different municipalities side by side on a chart to see if certain relationships come through. These include population, personal income per capita, assessed valuation per capita, municipal tax per capita, total tax per capita, mill rate, estimated tax on an \$18,000 house, county mill rate, school district mill rate, assessed valuation per pupil unit, and so forth. It is too early now to get an over-all conclusion on the nature of the disparities from this data. But he hopes to be able to report to our committee in about 2 weeks. He wants to look particularly at the reasons for the differences in net current expenditures per pupil unit in the school districts. Hopefully, we will be able to develop some conclusions from this data on the nature of the disparities and what might be done to cure them. He referred to the material presented to the committee last week by David Nelson of the University of Minn. He particularly drew the attention of the committee to the procedure which was followed in holding all things constant and then changing one variable. Thus, for example, you might state that other things being equal a high level of homestead property in a community is a handicap. This is a sample of the type of thing he is going to try and work on in the next couple of weeks.

3. The meeting was adjourned at 9 p.m.

Paul Gilje
Staff